Westpac

Institutional Bank

15 December 2016

Wind in the sails

Preview of September 2016 GDP and current account (22 Dec, 10.45am)

- We estimate that GDP rose 0.8% in the September quarter, holding annual growth steady at 3.6%.
- While the largest contributions are expected to come from manufacturing, retail and professional services, growth looks relatively broad-based across the economy, with agriculture a notable exception.
- We expect the current account deficit to remain steady at 2.9% of GDP, with a worsening in the goods trade deficit offset by a narrowing in the income deficit.

	Jun-16 actual	Sept-16 Westpac f/c
GDP		
Quarterly % chg	0.9	0.8
Annual % chg	3.6	3.6
Annual average % chg	2.8	3.1
Balance of Payments		
Current account balance $m, s.a.	-1,826	-1,959
Annual balance $m	-7,383	-7,488
Annual balance % of GDP	-2.9	-2.9

The September quarter national accounts, released next week, are expected to show the New Zealand economy sailing smoothly into summer. We're forecasting growth of 0.8% in the September quarter. Following an impressive run-rate of 0.9% for the previous three quarters, this would see annual growth hold steady at 3.6%.

Indicators over the past few months have painted a positive picture for economic growth. Business surveys showed that firms became decidedly more positive in the September quarter about the general business environment and prospects for their own business. And this was backed up by strong growth in employment, seeing the unemployment rate fall below 5% for the first time since 2008. The sector level data trickling in over the past few weeks certainly haven't spoiled the party, and suggest that as the growth impulse from construction was moderating, other sectors have strengthened to fill the gap. Solid growth is not surprising in light of familiar factors, such as the burgeoning population, surging tourist numbers, and low interest rates, that continue to boost demand.

Quarterly growth of 0.8% would only be a touch below the Reserve Bank's forecast from the November MPS and, consequently, it wouldn't materially impact its outlook for the economy. The Reserve Bank is counting on strong growth heading into 2017 in order to push inflation higher. And for now, momentum in growth looks solid, especially given the improved prospects for dairy sector incomes.

Q3 GDP

We expect growth of 0.8% in the production measure of GDP, with the goods-producing sector shaping up as one of the strongest performers. While a decline in milk and meat processing is expected to weigh on food manufacturing, the manufacturing survey released earlier this week showed a strong result for non-food manufacturing. And construction is still expected to be a key contributor to growth, despite easing back from the screaming pace of growth seen in the first half of the year.

Obvious beneficiaries of strong population growth and the surge in overseas visitors have been the retail and accommodation sectors, which had another strong quarter rising an estimated 1.4%. Professional services also look to have posted another solid gain, while rental, hiring and real estate services will have been weighed down by a sharp fall in house sales following the tightening of lending restrictions in the quarter.

The main negative for the quarter is agricultural production. The dairy season got off to a slow start, as a smaller herd and poor weather dragged on milk production. However, other parts of the primary sector look to have performed better. The forestry sector looks like a standout this quarter, off the back of the strong domestic construction sector and a resurgence in Chinese demand, while a lift in oil extraction should see the mining sector halt its recent downtrend.

Current account

We expect the annual current account deficit to remain steady at 2.9% of GDP, with a worsening in the goods trade deficit expected to be offset by a narrowing in the investment income deficit.

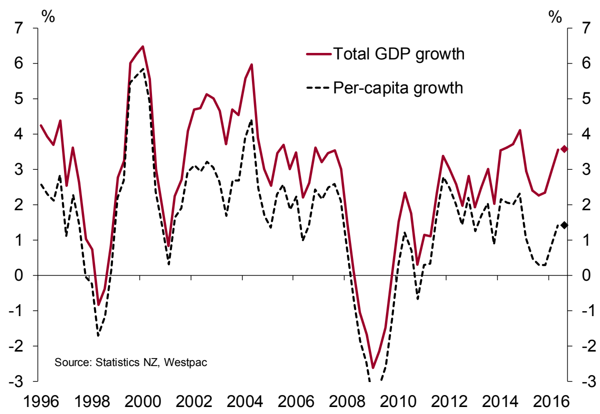
The 10% fall in the terms of trade since mid-2014, driven by a plunge in global dairy prices, has been a key factor contributing to a deterioration in the goods balance. The 1.8% fall in the terms of trade in the September quarter (although this time due to a rise in the cost of fuel imports) is expected to see the annual goods deficit widen slightly to 1%.

Meanwhile, services continue to provide a strong offsetting force, with the annual services surplus estimated to stay steady at 1.7% of GDP. A surge in overseas visitor numbers has provided a powerful boost to tourism receipts, although spending growth hasn't been as strong in recent quarters, potentially as the stronger NZ dollar erodes tourists purchasing power.

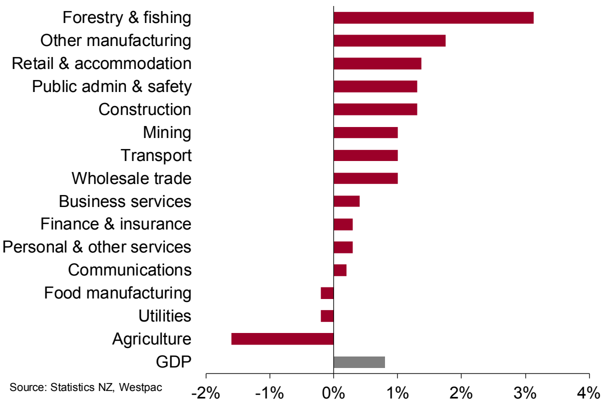
We estimate that the investment income deficit narrowed to around $2bn in the quarter, reflecting lower profits for overseas-owned firms. This would see the annual deficit narrow to 3.2%, much improved from nearly 4% a year ago and a world apart from the 7.4% deficit in 2008. The turnaround in the income investment deficit has reflected a number of factors including low interest rates that have reduced the interest payments on New Zealand's stock of debt, and an increase in national savings.

Sarah Drought
Economist

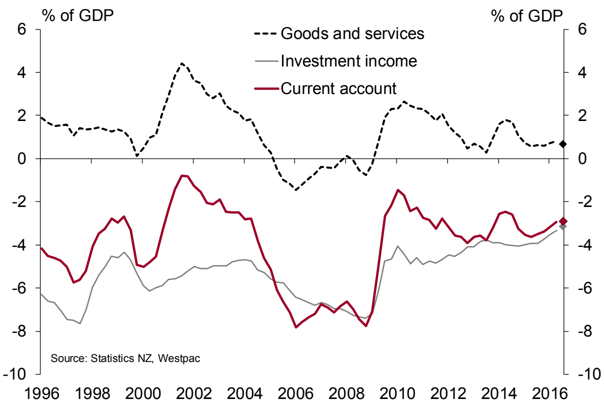
Annual GDP growth



Q3 GDP changes by sector



Annual current account balance



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